

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 FEA-02 DRC-01 DODE-00 PA-04 USIA-15 PRS-01

/154 W

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R 171006Z JAN 74

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 0690

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E.O. 11652: N/A

TAGS: ECON, EFIN, ETRD, TW

SUBJECT: PREMIER CHIANG CHING-KUO COMMENTS ON GRC ECONOMIC  
POLICIES

REF: TAIPEI 0199

1. SUMMARY: PREMIER STATED TO AMBASSADOR AT BREAKFAST  
MEETING JANUARY 16 THAT GRC SOON WILL ANNOUNCE NEW  
ECONOMIC PROGRAM PRINCIPALLY INVOLVING "READJUSTMENT  
OF PRICE STRUCTURE". PROGRAM MADE NECESSARY BY HIGHER  
PRICES AND SCARCITY OF ESSENTIAL IMPORTED RAW MATERIALS  
BEYOND CONTROL OF ROC. PRICE INCREASES WILL BE MODERATE  
AND DESIGNED TO MINIMIZE IMPACT ON LOW-INCOME FAMILIES.  
PROGRAM IS ENVISAGED AS ONE THAT "EVERYBODY CAN LIVE WITH".  
ROC ECONOMY STILL BASICALLY HEALTHY. GOAL FOR INCREASE  
IN GNP WILL BE LOWERED TO 6.5 PERCENT FOR 1974. GOVERN-  
MENT REVENUES EXPECTED TO INCREASE ENOUGH TO MAINTAIN  
A SOUND FISCAL CONDITION.

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DETERMINED EFFORT WILL BE

MADE TO ACHIEVE A BETTER BALANCE IN U.S.-ROC BILATERAL TRADE, AND TO THAT END PREMIER HAS INSTRUCTED ALL GRC MINISTRIES AND AGENCIES TO SEEK TO BUY MORE FROM THE U.S. NEW TAIWAN DOLLAR WILL REMAIN PEGGED TO U.S. DOLLAR.

END SUMMARY

2. AT PRIVATE BREAKFAST SESSION WITH AMBASSADOR JANUARY 16, PREMIER STATED THAT GRC WILL SOON ANNOUNCE NEW ECONOMIC MEASURES, MAINLY CONSISTING OF LIMITED PRICE INCREASES ON CONTROLLED ITEMS. INCREASES ARE REGRETTABLE BUT UNAVOIDABLE, OWING TO HIGHER PRICES ROC HAS TO PAY FOR CRUDE OIL AND OTHER ESSENTIAL RAW MATERIALS IN SHORT SUPPLY. READJUSTMENT WILL NOT BE DRASTIC AND "EVERYBODY CAN LIVE WITH IT."

3. PREMIER SAID ANNOUNCEMENT HAS BEEN DELAYED FOR TWO REASONS: A) HE PLEDGED TO PUBLIC SOME MONTHS AGO THAT HE WOULD NOT APPROVE GENERAL PRICE INCREASES IN 1973; AND B) TIME WAS REQUIRED TO DEVELOP A COMPLETE, EQUITABLE AND WELL-INTEGRATED PROGRAM. HE WAS DETERMINED TO PUT FORWARD A COMPREHENSIVE PROGRAM WHICH WOULD HOLD FOR THE ENTIRE YEAR. HE HOPES THAT IF PIECEMEAL PRICE HIKE CAN BE AVOIDED AND PUBLIC CONFIDENCE ESTABLISHED IN STABILITY OF PRICE AND SUPPLY SITUATION, INFLATIONARY PSYCHOLOGY CAN BE PREVENTED.

4. PREMIER SAID NEW PROGRAM WOULD CONTAIN IMPORTANT SOCIAL POLICY IMPLICATIONS. THE BURDEN WOULD FALL MORE HEAVILY ON PEOPLE WITH LARGER INCOMES. THE ADDED WEIGHT THROWN ON POORER PEOPLE SHOULD BE AS LIGHT AS POSSIBLE. HE SAID THAT "A BALANCE WILL BE STRUCK", AND THE PLAN WILL SHOW THAT THE GOVERNMENT HAS A SOCIAL CONSCIENCE. THE PROGRAM WOULD BE EQUITABLE FOR ALL THE PEOPLE.

5. PREMIER SAID THAT IN VIEW OF THE RECENT ADVERSE INTERNATIONAL ECONOMIC DEVELOPMENTS, THE HIGH GNP GROWTH RATE OF 1973 COULD NOT BE MAINTAINED IN 1974. THE TARGET FOR GROWTH IN GP FOR 1974 HAS BEEN RESET AT LIMITED OFFICIAL USE

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6.5 PERCENT, A FIGURE WHICH HE BELIEVES ATTAINABLE.

6. PREMIER NOTED THAT PERSISTENT RUMORS IN LATTER HALF OF 1973 OF REVALUATION OF NT DOLLAR HAD NEVER HAD ANY FOUNDATION, AND STATED POSITIVELY THAT NT DOLLAR WILL REMAIN PEGGED TO U.S. DOLLAR IN 1974.

7. PREMIER VOICED DETERMINATION TO KEEP INFLATION

WITHIN BOUNDS IN 1974, DESPITE SOME INESCAPABLE PRICE INCREASES. HE CONSIDERED THE ECONOMY TO BE BASICALLY HEALTHY AND THE STATE OF THE GOVERNMENT BUDGET QUITE FAVORABLE. REVENUES EXCEEDED THE TARGET FOR THE SECOND HALF OF CALENDAR 1973 AND HE ANTICIPATED GOVERNMENT REVENUES LARGER THAN THE PROJECTED FIGURES AGAIN IN THE FIRST HALF OF CALENDAR 1974.

8. WITH REGARD TO US-ROC TRADE, PREMIER STATED HE EARNESTLY WISHED TO ACHIEVE A BETTER BALANCE IN US-ROC BILATERAL TRADE. HE IS VERY AWARE OF THE MAGNITUDE OF THE TRADE GAP AND HAS INSTRUCTED ALL GOVERNMENT MINISTRIES AND AGENCIES TO TRY TO BUY MORE FROM THE U.S. HE ANTICIPATED THAT THE OPENING OF THE U.S. TRADE CENTER IN MARCH WOULD GREATLY STIMULATE PURCHASE OF U.S. GOODS.

9. AMBASSADOR REFERRED TO ANXIETY CREATED IN LOCAL AMERICAN INDUSTRIAL, TRADING AND FINANCIAL CIRCLES BY RECENT LEGISLATIVE YUAN AMENDMENTS TO STATUTE FOR ENCOURAGEMENT OF INVESTMENT, PARTICULARLY THE ONE WHICH WOULD IN GENERAL RAISE WITHHOLDING TAX RATE ON DIVIDENDS FROM 15 TO 35 PERCENT. HE NOTED APPRECIATIVELY THE COOPERATIVE SPIRIT SHOWN BY GRC SENIOR ECONOMIC OFFICIALS IN WORKING WITH AMERICAN CHAMBER OF COMMERCE AND EMBASSY OFFICIALS TO FIND AN ACCEPTABLE LONG-TERM SOLUTION. HE COMMENDED MINISTER OF FINANCE K.T. LI'S ACTION TO HOLD THE RATE AT 15 PERCENT FOR THE TIME BEING AND EXPRESSED HOPE THAT DECISION COULD BE MADE FIRM, ESPECIALLY IN VIEW OF NEARLY INSURMOUNTABLE DIFFICULTY OF DOCUMENTING TO SATISFACTION OF CHINESE TAX AUTHORITIES ANY CLAIMS FOR TAX REBATES BASED ON U.S. INCOME TAXES PAID. PREMIER ASSURED AMBASSADOR THAT PURPOSE OF AMENDMENTS IS NOT TO PENALIZE FOREIGN INVESTORS AND SAID HE INTENDED TO REVIEW MATTER LIMITED OFFICIAL USE

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WITH CABINET TO ENSURE THAT CONCERNS OF U.S. BUSINESS COMMUNITY AND ORIGINAL COMMITMENTS TO FOREIGN INVESTORS WERE FULLY TAKEN INTO ACCOUNT.

10. BRIEF COMMENTS WILL FOLLOW BY SEPTTEL TOMORROW.  
MCCONAUGHY

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## Message Attributes

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